



“Kewal Kiran Clothing Limited
Q2 and H1 FY 24 Earnings Conference Call”

October 25, 2023

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**MANAGEMENT: MR. HEMANT JAIN – JOINT MANAGING DIRECTOR
MR. PANKAJ JAIN – PRESIDENT RETAIL**

Moderator: Ladies and gentlemen, good day, and welcome to Kewal Kiran Clothing Limited Q2 and H1 FY '24 Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

Before we begin, a brief disclaimer. The presentation which Kewal Kiran Clothing Limited has uploaded on the stock exchange and their website, including the discussions during this call, contains or may contain certain forward-looking statements concerning Kewal Kiran's business prospects and profitability, which are subject to several risks and uncertainties, and the actual result could materially differ from those in such forward-looking statements.

I now hand over the conference to Mr. Hemant Jain, Joint Managing Director. Thank you, and over to you, sir.

Hemant Jain: Yes. Good afternoon. Can I start? Good afternoon. On behalf of Kewal Kiran Clothing Limited, I welcome everyone to the Q2 and H1 FY '24 Earnings Conference Call of the company. Joining me on this call is Mr. Pankaj Jain, President - Retail and our Investor Relations Advisor. I hope everyone had an opportunity to look at our results. The presentation and results release have been uploaded on the stock exchange and our company's website.

As you may be aware, we have launched our kids wear-focused brand - Junior Killer. Foray into kids wear is in line with our growth strategy to build a comprehensive portfolio across age groups and genders. The brand offers extensive range of clothing for kids across casual, sports and classics from the age of 4 years to 16 years, while the Brand Killer will continue to offer products for 16 years and above. This move marks Brand Killer becoming a 4 to forever age group brand.

Now coming to our financial performance in the Q2 and H1 FY 2024. I am delighted to share that we have continued our growth momentum, registering increase of 16% in Q2 FY '24 compared to Q2 FY '23 from our operating revenues. We achieved an impressive EBIDTA margin of 23.5%. Our PAT of INR 49.7 crores in Q2 FY '24 clearly demonstrates company's business and model strength.

The growth in sales was backed by a healthy volume growth of 19.2% across apparel and accessories, demonstrating the designing capabilities of the company and strong brand acceptance. This robust performance, despite a general slowdown in the market, reflects the company's commitment to providing customers with a superior fashion experience, rapid response to the changing market conditions, along with effective execution of our growth strategy through brand building, network expansion and category extension.

We have also been strategically opening brand-focused EBOs to tap into the untapped markets and widen our customer base, enabling us to enhance our market presence and increase accessibility for our target consumers across India. Continuing our strategy towards expanding exclusive brand-focused EBOs, the company has had a net addition of 22 Killer brand EBOs during the quarter, taking the total tally of Killer EBOs to 271 and overall EBOs to 470 EBOs

as at September 30, 2023. Further work on additional identified 49 EBOs is ongoing and expected to be launched in coming months.

Now coming to the financial performance highlights.

Standalone performance highlights for Q2 FY '24. Revenue from operating for Q2 FY '24 grew by 16% to INR 262.5 crores as compared to INR 226.3 crores in Q2 FY '23. Gross profit grew to INR 111.9 crores in Q2 FY '24 as compared to INR 93.7 crores in Q2 FY '23. Gross margin for Q2 FY '24 increased to 42.7% as compared to 41.4% in Q2 FY '23. EBIDTA for Q2 FY '24 grew by 23.4% to INR 61.7 crores as compared to INR 50 crores in Q2 FY '23. EBIDTA margin for Q2 FY '24 stood at 23.5% as compared to 22.1% in Q2 FY '23. PBT for Q2 FY '24 grew by 36.8% to INR 66.2 crores as compared to INR 52.3 crores in Q2 FY '23. PBT margin for Q2 FY '24 stood at 24.5% as compared to 22.5% in Q2 FY '23. PAT for Q2 FY '24 grew by 27.2% to INR 49.8 crores as compared to INR 39.1 crores in Q2 FY '23. PAT margin for Q2 FY '24 expanded to 18.4% as compared to 16.8% in Q2 FY '23.

Now standalone performance highlights for H1 FY '24. Revenue from operating for H1 FY '24 grew by 15.8% to INR 440.9 crores as compared to INR 380.9 crores in H1 FY '23. Gross profit grew to INR 188.7 crores in H1 FY '24 as compared to INR 160.5 crores in H1 FY '23. Gross margin for H1 FY '24 expanded to 42.8% as compared to 42.1% in H1 FY '23. EBIDTA for H1 FY '24 grew by 20.8% to INR 95.9 crores as compared to INR 79.4 crores in H1 FY '23. EBIDTA margin for H1 FY '23 increased to 21.7% as compared to 20.8% in H1 FY '23. PBT for H1 FY '24 grew by 37.2% to INR 107.7 crores as compared to INR 78.5 crores in H1 FY '23. PBT margin for H1 FY '24 expanded to 23.4% as compared to 20.3% in H1 FY '23. PAT for H1 FY '24 grew by 37.7% to INR 83.6 crores as compared to INR 60.7 crores in H1 FY '23. PAT margin for H1 FY '24 increased to 18.2% as compared to 15.7% in H1 FY '23.

We may now begin the Q&A session.

- Moderator:** Thank you very much. The first question is from Kapil Jagasia from Nuvama Wealth Research. Please go ahead.
- Kapil Jagasia:** Sir, first of all, congratulations on a great set of numbers.
- Pankaj Jain:** Thank you.
- Kapil Jagasia:** Sir, my -- yes. My question was on this shirts category where the growth has been kind of flattish this quarter. So would need any color, is it on account of realization decline industry-wise or some shift in demand for the category itself at the industry level?
- Pankaj Jain:** The second quarter, if you see, there is another category which comprises of winterwear. So we consider bottom -- top wear as a category together. So that's the reason. You will see that, okay, for the September period where my primary dispatches for winterwear has already started, it will -- we'll look at top wear as a contribution, not shirt in isolation.

- Kapil Jagasia:** Okay. So usually, Q2 would remain as it is, but Q3, the shirts contribution would be going up, right?
- Pankaj Jain:** No, the Q3 generally, the shirts contribution goes down and the winterwear category moves up. But here, since there was a shift over structure, the winterwear has started from the month of September. So that's why you'll see that the number -- that's why you'll see that the number of winterwear has gone up during that period.
- Kapil Jagasia:** Okay. Got that. My next question is on the K-Lounge stores. Like, what would be the outlook on it as we have closed around 40 K-Lounge stores over the last 1 year? I know most of it would have been converted into Killer EBOs and now you are also looking at some large-size K-Lounge stores. But just for our reference, what would be the number of this K-Lounge stores by end of FY '24 and also beyond that?
- Pankaj Jain:** So we are trying to continue with the number of K-Lounge stores. So what is happening is, in the revamping, as the stores are maturing, okay, some of the stores are getting converted to Killer stores, okay and there is a shift over -- and we are on the path to make the K-Lounge stores on a bigger format stores.
- So that working is also going on. So there will be a shift in the through peak possibility. That's a possibility, okay, but we are trying to maintain -- but the number of stores as far as possible for K-Lounge.
- Kapil Jagasia:** Okay, so any number here, what would be the closures or additions of K-Lounge stores for this particular year?
- Pankaj Jain:** So on the number of stores perspective, if I show that, K-Lounge on an individual level, K-Lounge has been closed down by 28 stores and Killer have been opened by 49 stores.
- Kapil Jagasia:** Okay. Fine. And just by this last one year's store-wide structuring, now which format is giving better results? Would that be individual EBOs or Killer EBOs or that would be K-Lounge individual?
- Pankaj Jain:** The individual stores are giving better results.
- Kapil Jagasia:** Okay. And this large-size K-Lounge stores, how that would come into picture here then once you start opening them?
- Pankaj Jain:** We see that happening what maybe, okay, in the next year perspective, not in the current year.
- Kapil Jagasia:** Okay. And just this last question from my side, now when would Killer Junior sales start reflecting in our numbers?
- Hemant Jain:** See, as far as Killer Junior is concerned, so we just launched, but sale will happen in the quarter four. The first sale will start from quarter four, will start with last quarter. And it is like this that in order to settle any brand, at least we need at least 3 seasons. So as far as number is concerned,

we will give you after three seasons. So it takes some time for any brand to settle. If we make some mistakes, then to correct it, or to get market acceptance, minimum you require three seasons. So whatever the numbers will be, we can tell you after three seasons.

- Moderator:** The next question is from Priyanka Trivedi from Antique Stock Broking Limited. Please go ahead.
- Priyanka Trivedi:** Yes. So my first question is on the margins. So our EBIDTA margins have improved by almost 142 basis points for the quarter. So what has driven this improvement? And is this sustainable in the coming quarters?
- Pankaj Jain:** Hi, Priyanka, the total number is a composite number, okay. It contributes one because of there has been an improvement in the gross profit margin, that aspect, and a little bit on the operational aspect, where the operational synergies is giving me a 0.50 bps or 0.75 bps perspective, which overall contributes to the total value.
- Priyanka Trivedi:** Okay. And is this sustainable in the coming quarters as well? Should we build in a similar expansion in the coming quarters?
- Pankaj Jain:** We'll try to sustain it, but we -- okay, general guidance from our side would be 18% to 20% EBIDTA only.
- Priyanka Trivedi:** Okay. Got it. So -- and my second question is, what has been the ASP and the ASP growth in apparels?
- Pankaj Jain:** Apparel numbers are not directly given, it's a composite number which we do give, where it consists of apparel as well as accessories. But I can tell you that, okay, there has been a growth in volume as well as realization.
- Priyanka Trivedi:** Okay. And lastly, my third question is that our working capital cycle has improved significantly in the last two quarters, driven majorly by the inventory days. So what has driven that? And is it expected to continue in the coming quarter as well?
- Pankaj Jain:** Yes. Priyanka, we generally say that, okay, the working capital cycle will stay between 120 days to 130 days period, which is right now as of today. So we think we will be able to maintain this.
- Moderator:** The next question is from the line of Varun Singh from ICICI Securities. Please go ahead.
- Varun Singh:** Yes. Sir, congratulations on a great set of numbers. Sir, my first question is on non-retail channel revenue decline. So how should we read this number, if you wish to share any color on this?
- Pankaj Jain:** You are looking at the numbers in terms of percentage. Absolute numbers have not gone down.
- Varun Singh:** Okay. So what is that number? I mean, if you compare retail channel revenue compared to non-retail channel revenue year-on-year growth?

- Pankaj Jain:** See, we give composite mix percentages only, Varun.
- Varun Singh:** Yes.
- Pankaj Jain:** So -- okay. The absolute numbers for both the channels have not gone down.
- Varun Singh:** No, no, because basis my computation that number has gone down. So I was just wanted to understand if there is any mistake in the number that I am working out. So what would be your number?
- Pankaj Jain:** The absolute number has not gone down.
- Varun Singh:** Okay. So you are saying that there is a growth in both the channels?
- Pankaj Jain;** Yes. On the quarter and quarter perspective also as well as on the half year perspective also.
- Varun Singh:** Okay, no problem. I'll just cross check my numbers. My second question is, you expect next 2 quarters you will be able to drive 18%, 19% kind of year-on-year revenue growth given the current momentum. I mean, this quarter if we could grow at 16%, but still given festivity and Durga Puja, which has shifted from Q2 to Q3, so given all this background and context you -- I mean, more number of wedding days, etc also in second half. So what would be your hunch with regards to the revenue growth that we have clocked in the first half compared to expectation in the second half?
- Pankaj Jain:** Varun, we have grown by 16% on the revenue perspective, and we are confident still we'll achieve this kind of growth, okay, in the next quarters maybe next half year also. Our guidance has been 18% full year growth and we are looking at, okay, achieving that. But it also depends on how the winter season pans out as well as how the new categories perform. But, okay, we are trying to achieve our guidance.
- Varun Singh:** Okay. So the ask -- I mean, to achieve 18% rate, the ask rate for second half which is 18% to 19%, you think that there is more than 90%, 95% chances of the -- you being able to deliver that number?
- Pankaj Jain:** We are trying our best to achieve that.
- Hemant Jain:** See, the numbers that we are committing, we try to achieve them. See, there are many things that depend on season as well. Like if the winter season is good, then the numbers will be 100% good. So normally when we are talking to you about 18%-20% growth, we are trying to achieve that. It won't happen that the numbers will fall down but we will try to achieve that 95% number.
- Varun Singh:** Understood. And, sir, my next question is on the size -- the store size. You mentioned in the PPT that you would be looking for a bigger format of K-Lounge store. So just wanted to understand over here that -- so on the first part, why we started rationalizing the K-Lounge store with the Brand Killer, assuming that Killer has a larger brand pull and more focused larger appeal in -- or more brand awareness.

So my understanding was that it's the right approach to do that. But now, I mean, what is the -- so how should we look at the aspiration? What is the need for a bigger size K-Lounge store going forward? If you can give some strategic insights over there?

Hemant Jain: Every time there is a business dynamic change. When we say K-Lounge, K-Lounge is the mix of all our KKCL brands. And we want to launch more categories also. So in future, when I am talking about scaling the K-Lounge store size, I will put all my brands and all my gender, all my categories. So for that, we need a bigger size of store.

So next year onwards, we are trying to set a team to start a big store. And we don't want to be dependent on the others. Today we have a single brand like EBOs, so we need a certain square feet size. Killer is dependent on 700-1,000 square feet. For the single brand, it is okay. But when we say that we have to do all the brands together, then we need a bigger size store. And we want to involve some more categories also. So in future, K-Lounge will be a bigger size store. And individual brand store will be the smaller size store.

Varun Singh: When you say bigger size, that means what? From 700 square feet, it would be 1,000 square feet- 1,200 square feet?

Hemant Jain: Then I will come back to you, we are working on that. We have to K-Lounge in big size stores.

Pankaj Jain: Varun, we are still under the incubation stage scenario for that. Okay, what has happened is, the first K-Lounge was opened in the period of 2005. It was a competition to a pure MBO. You will see that, over a period, it was competing with the Tier 2, Tier 3 cities, that MBO stores.

That MBO has also evolved over this period and started going to indoor shop and shop. Where the brand cycle came into picture, that's why we shifted our entire perspective to EBO stores or exclusive format stores. Now, K-Lounge is somewhere in between which has to fend. It will again be a competition to that family-owned store in the Tier 2 and Tier 3 city only.

Varun Singh: Understood. And sir, my just last question is, so now what is the aspiration that whatever incremental store addition on an annual basis that we wish to do, what percentage would be Killer and what percentage would be K-Lounge?

Pankaj Jain: As we are saying, net used to be around -- we are saying is around 80 stores to 100 stores. This year, it will be close to around 60 stores to 80 stores.

Varun Singh: Sorry, 60 stores to 80 stores of Killer?

Pankaj Jain: Right. 60 stores to 80 stores on a net basis. You needed a net number, right?

Varun Singh: No, I was saying, how much will be K-Lounge and Killer added?

Pankaj Jain: We are not looking at adding up K-Lounge stores anymore.

Varun Singh: Sorry, sir?

- Pankaj Jain:** We are not looking at adding up K-Lounge stores anymore.
- Varun Singh:** Okay. But then you said bigger format K-Lounge store?
- Pankaj Jain:** This is for next year.
- Varun Singh:** No, I was asking about next year specifically because we have to build in our estimates also. So...
- Pankaj Jain:** So for next year perspective, I am saying that the project plan is still on paper, where I am saying that it will be a competition to a purely a MBO in a Tier 2 and a Tier 3. So exact numbers, how the store will happen, what type of styling, what contribution this category makes, I will give you after, maybe in the next year perspective.
- Varun Singh:** Thank you. I understood, sir. Got it. Thank you very much, sir. And wish you all the best.
- Moderator:** Thank you very much. The next question is from the line of Sahil Doshi from Thinkwise. Please go ahead.
- Sahil Doshi:** Yes. Hi, sir. Sir, firstly, congratulations for good performance despite the Diwali quarter, meaning the month getting shifted. Just on this store opening, wanted to really understand, firstly, I think we've reduced the aggression or the aspirations of opening around 100 odd stores a year to around 60 stores to 80 stores. So why is that so? Is it because of the market dynamics or is it because of this re-strategy of K-Lounge and the Killer strategy?
- Pankaj Jain:** Sahil, most of the stores generally, when we say, we open our franchisee owned franchisee operated. So market sentiments do play a role when we go and pitch in. There are a number of stores which are under development, but the closure is happening, taking a little bit longer period.
- Sahil Doshi:** Okay. So aspirationally 100 odd stores a year, that target remain, I understand a quarter or two quarter delay because of the...
- Pankaj Jain:** Target for this year, which was from 80 stores to 100 stores to 60 stores to 80 stores.
- Sahil Doshi:** Okay. And incrementally for the next couple of years, if we have to see, we will maintain the run rate of 80 stores to 100 stores? Is that the right number?
- Pankaj Jain:** The new format picture of K-Lounge will also be there in place. So definitely we're looking at 80 stores to 100 stores in the coming years.
- Sahil Doshi:** Okay, understood. And when I see the first half, the K-Lounge number, which is we've reduced roughly 44 odd stores in the first half, is it that the K-Lounge stores have got converted into Killer reviews or you've vacated those geographies or the store itself?

- Pankaj Jain:** Most of them, most of the stores. So the entire ageing of the stores in K-Lounge, and most of them are, higher than -- all of the stores are more than three-year period. And most of the stores are more than -- 75% of the stores are more than a five-year period. So we are revamping the strategies and structures for them.
- Sahil Doshi:** Okay. So it's not that you've vacated the premise for the location, you've converted it into a Killer store?
- Pankaj Jain:** Some of the locations would have got vacated, but, instead of that, a Killer store would have been taken that place in that city.
- Sahil Doshi:** Okay. Understood. And what is the strategy on this other brand EBOs, because we've also seen five odd store closures in the first half again?
- Pankaj Jain:** Not vacated the city, I may have vacated that location.
- Sahil Doshi:** Okay. And on the other brand EBOs, where we've seen 5 stores in H1 were closed, what's the strategy on this other piece?
- Pankaj Jain:** See, we are still -- that other brand stores are still under that pivot stage to justify their numbers. So, for their future growth, the number of stores opening, we are still on the deciding phase.
- Sahil Doshi:** Okay. So when will we be in a better position to roll out or just share the strategy on the store opening?
- Pankaj Jain:** The stores which will be open out on the next six-month basis will be only Killer stores.
- Sahil Doshi:** Okay. Understood. Sir, the other question was on, because of the shift in the festive month, is it right to say that the stocking up by MBOs, etc, would have got delayed? And that's why on a first -- this quarter or so, if we see the non-retail growth, it's only 5%. So...
- Pankaj Jain:** Sahil, can you repeat the question? I couldn't get that.
- Sahil Doshi:** No. So if I see the non-retail, which has the MBO, the growth in this quarter is roughly 5% in absolute terms. Is it because there is a shift in the festive month from October to November? Is that the reason?
- Pankaj Jain:** Okay. Non-retail doesn't only comprise of MBO, it comprises of three, four numbers, okay?
- Sahil Doshi:** Sure.
- Pankaj Jain:** Okay. There could be a little bit shift over, on one of the mix of that channels.
- Sahil Doshi:** Okay, meaning -- the question I was meaning -- what I was trying to get at is that the entire impact of the festive will possibly get shifted from October to November, and hence...

- Pankaj Jain:** That's a likely number, okay. If we compare the quarter 2 and quarter 3 together, we'll have a better picture and better understanding of the numbers. That's true, Sahil.
- Sahil Doshi:** Okay. And just one clarity on the other income. Now that has become INR 20 crores odd in H1, right? And even we saw in Q1 and Q2, the number is quite elevated. What is the composition of this, and how sustainable is this?
- Pankaj Jain:** Which number are you talking about?
- Sahil Doshi:** If I look at the other income...
- Pankaj Jain:** It has a direct correlation with the debt markets. The debt markets have improved, and that's the reason, it has a direct relation with the debt markets.
- Sahil Doshi:** Okay. There is no other one-offs in this other income at all?
- Pankaj Jain:** Not at all.
- Sahil Doshi:** Okay. Understood. And just a final request, this is basically, can we possibly bifurcate the volumes of apparel and non-apparel? Because that is actually changing the entire dynamic. And it's very difficult to understand the kind of realization growth and the SSG growth we could possibly see?
- Pankaj Jain:** But, looking at the competition perspective where most of them are unlisted, I refrain from giving such numbers.
- Sahil Doshi:** Okay. But -- or indicator number at least if you can just give, that will also be really helpful?
- Pankaj Jain:** It would be one and the same, Sahil, okay. Let me -- let our management evaluate the perspective and then get back to you on this question maybe in the next quarter.
- Sahil Doshi:** Sure, sir. Thank you so much and best wishes for the quarter ahead. Thank you.
- Moderator:** Thank you very much. The next question is from Shrinjana from RatnaTraya Capital. Please go ahead.
- Shrinjana:** Hi, Thank you for the opportunity. Firstly, congrats on a great set of results. Like I have a couple of questions. So first is on the gross margin side. I wanted to understand the movement in the gross margin. So compared to last year, our gross margins has improved roughly by around 1%. So is that because of material cost benefits or is there some -- because on the mix side if we see, the share of winter-wear has increased, right? So that should have a negative impact but the gross margins have still increased. So just wanted to understand that?
- Pankaj Jain:** You rightly said. It has improved by more than 1% and it is because of the price bracket changes, yes.

- Shrinjana:** Sorry, the price market?
- Pankaj Jain:** It's because of the price bracket.
- Shrinjana:** The material cost because the cotton prices have come down. Is that correct?
- Pankaj Jain:** That is right.
- Shrinjana:** Okay, thank you. Just one more question. So this year, our winter sales – winter-wear sales have come early. Is that the reason why our inventory has gone down, like even on absolute terms?
- Pankaj Jain:** Winter-wear is the entire buyout category. Definitely there has been some reforming on that, but winter-wear major sales would be during the third quarter scenario.
- Shrinjana:** Okay. So this -- so the others category, the sales, INR 30 crores odd sales which is in the others category, that is not winter-wear, that includes others?
- Pankaj Jain:** That's winter-wear and accessories.
- Shrinjana:** So it would be primarily like what would be the largest part of that others category?
- Pankaj Jain:** Winter-wear would be a larger part.
- Shrinjana:** Okay. And the inventory improvement, that's just because this quarter has gone well. Is that correct?
- Pankaj Jain:** Winter-wear improvement. See, we track this on a working capital cycle, so -- okay, not exactly on the inventory-based structure here.
- Shrinjana:** Okay. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Hi, congratulations on a great set of numbers. I had a couple of questions on, where do you see the channel mix changing for you, let's say, from retail -- from non-retail to retail? And what kind of working capital changes do you see when you change, let's say, from non-retail to retail?
- Pankaj Jain:** The category contribution, we say that we feel that retail will grow at a faster pace, so it's going to be at a 50%- 50% percentage.
- Arpit Shah:** And what kind of working capital differential is there between the two? Like, what kind of working capital do you entail non-retail. What kind of working capital do you entail in retail?
- Pankaj Jain:** Almost similar. Since retail is mostly on a FOFO basis, working capital requirement almost is similar.

- Arpit Shah:** Okay. Got it. And if you can just explain the store economic differential between FOFO and COCO store? I'm still little new to the company, just wanted to understand how -- what kind of billing is done to the FOFO store and what kind of billing happens, let's say, to the COCO store, and what kind of inventory, capex do we do? What kind of revenue per store we expect from these companies, like...
- Pankaj Jain:** FOFO, everything is done by the franchisee. FOFO, everything is done by the franchisee. COCO, everything is done by KKCL.
- Arpit Shah:** What is the typical capex plus inventory per store?
- Pankaj Jain:** So on a store size structure, okay, we say, INR2,000 -- capex, INR2,000 a square feet capex.
- Arpit Shah:** INR2,000 per square feet is capex and INR2,000 per square feet is inventory, is that right?
- Pankaj Jain:** Yes.
- Arpit Shah:** And what is the sales per square feet according to you all in the retail format?
- Pankaj Jain:** Okay. Since the rental perspective on a FOFO stores vary from wide variations, since I'm operating in a Tier 1 to a Tier C, Tire D's perspective also, okay, we generally see that, okay, per store revenue is around INR80 lakh in MRP.
- Arpit Shah:** INR80 lakh per year, right?
- Pankaj Jain:** Yes, per year, per store.
- Hemant Jain:** Per year per store.
- Arpit Shah:** Got it.
- Hemant Jain:** See, when you work in small sized store, per square feet sales cannot be seen. When you are working with 20,000 square feet, 25,000 square feet or 50,000 square feet, you have to look for return on per square feet. In small stores, sometimes, the store in the city is very good and the store size is small then you will get good return against per square feet. When we plan for any FOFO model, we make sure that it will give INR 80 lakhs MRP sale, excluding rental and other expenses.
- Pankaj Jain:** We monitor it more on a ROI basis of what the investment has been done by the franchisee.
- Arpit Shah:** What would be the payback, if you open any new store?
- Pankaj Jain:** 2.5 years, three years period.
- Arpit Shah:** 2.5 years, three years payback period, and your new are on FOFO or COCO, 60 stores to 80 stores?

- Pankaj Jain:** Both.
- Arpit Shah:** Both. Majority of them will be FOFO?
- Pankaj Jain:** Majority of them will be FOFO.
- Hemant Jain:** See, for this year, the company's strategy is 85% FOFO and 15% is the COCO model.
- Arpit Shah:** Got it. So your 18% to 20% revenue for FY...
- Hemant Jain:** Same line will be continued.
- Arpit Shah:** So 100 stores which you are going to open on gross basis -- you continue this for FY '25, '26 also?
- Pankaj Jain:** Yes.
- Hemant Jain:** Yes.
- Moderator:** The next question is from the line of Dhiral from PhillipCapital. Please go ahead.
- Dhiral Shah:** Yes. Sir, any reason for declining the store addition from 100 stores to 60 stores to 80 stores? -- Sir, just wanted to check, sir, any reason for declining the store addition for the year from 100 stores to 60 stores to 80 stores?
- Pankaj Jain:** The reason I have already covered. I said that since the market was sluggish, okay, the closure took a little bigger time. So we were not able to -- we still have stores under development, okay, but -- okay, closing -- the closure with the franchisees took a little bigger time.
- Dhiral Shah:** Okay. And sir, what was the same-store sales growth for the quarter?
- Pankaj Jain:** Half yearly, from April to September, where the season -- we are not comparing the season right now, we are comparing the day-to-day scenario, the like-to-like growth was around 1%.
- Dhiral Shah:** Okay. Just 1%. And sir, any idea about how industry has grown?
- Pankaj Jain:** I'm not too sure about the numbers, but Puja was extremely good for everyone.
- Dhiral Shah:** Okay. And, sir, any idea why shirts have grown only 1% wherein T-shirts have grown almost double-digit?
- Pankaj Jain:** It's a category mix, where we look at top wear and bottom wear as a category structure. So bottom wear, okay, either it falls in the shirt wear or T-shirt wear or a winter wear, it's a mix of everything. Top wear to bottom wear ratio has to be maintained at a store. This is what we follow.
- Moderator:** The next question is from the line of Pavan Kumar from RatnaTraya. Please go ahead, sir.

- Pavan Kumar:** Yes. Sir, congrats on your results. I just wanted to check specifically on the shirts category. So is it -- so if our volume growth has not been that much, I mean, is this the price point that is the issue or is it the styling or what do we think we can actually get better on? Shirts, how can we get better on, sir, overall? That's my question. And should we be expecting better rates, growth rates?
- Pankaj Jain:** We look at the top wear and the bottom wear as a category structure and we feel that we have done adequately well on the top wear also, okay. Yes, the mix has changed a bit in the top wear category and we look forward, okay, it will be able to capture it betterly in the next quarters also.
- Pavan Kumar:** Okay. So according to you, how much has been the top wear growth?
- Pankaj Jain:** On the exact number, I will get back to you on sometime, but there has been a growth on the top wear category also. So you are comparing on the shirt-to-shirt as a category, T-shirt-to-T-shirt as a category, but sweatshirt and jacket is also there as a category which falls in others.
- Pavan Kumar:** Okay. Sweatshirt and what else did you say, Pankaj?
- Pankaj Jain:** Jacket.
- Pavan Kumar:** Jackets. Okay, that's fine. And do you think, Pankaj, I understand we have done very good growth this quarter, but let's say, do you think the entire festive season demand has been captured in this particular quarter or because it is late, do you think it would -- there is a substantial part left to be captured even in the next quarter, which might turn up even in the next quarter?
- Pankaj Jain:** Okay. Most of it has been captured, I would say. But third quarter, as we said, okay, the guidance perspective for quarter 3 guidance, we stay on a guidance that, the quarter 3, we will try to achieve on an 18% to 20% perspective, looking at the sluggish demand.
- Moderator:** The next question is from Pritesh Chheda from Lucky Investments. Please go ahead.
- Pritesh Chheda:** You mentioned that the LTL growth was 1%?
- Pankaj Jain:** That's right.
- Pritesh Chheda:** So which means the most part of the growth that we have seen is all distribution-led growth?
- Pankaj Jain:** Why would you say that? I'm saying L-to-L growth was in terms of retail stores.
- Pritesh Chheda:** Okay.
- Pankaj Jain:** Okay, was at 1% to -- 1%.
- Pritesh Chheda:** Okay. So then the residual growth is largely coming from the store additions, right?

- Pankaj Jain:** No, I'm saying when there is an -- like-to-like perspective is around 1%. I am comparing it on a September basis. On the retail perspective, last year the season was in the month of September and this time it is in the month of October.
- Pritesh Chheda:** Okay. I understood, sir. The other thing is, now for some quarters, we obviously tend to do margin, which is higher than the range. But let's say, when we did these changes that we brought in about a couple of years back, now those -- whatever changes are settled in your operations, is it possible that once your scale improves, you can head back to your higher margins, which we had seen some seven, eight years back at about 24%, 25% or whatever changes that you brought in, in the last two years makes a case that the margin profile of your business is now 19% to 20% only?
- Pankaj Jain:** See, Pritesh, we have -- as given as a guidance, we will like to stick to close to around 19% to 20%. Any addition to our EBIDTA, we will like to add it to marketing.
- Pritesh Chheda:** Okay. So this is a slightly longer view that you are taking, right? I am not asking you about a quarter or 2.
- Pankaj Jain:** No, it's a longer view perspective. Yes.
- Pritesh Chheda:** Okay. And just one more last question. This time there was a season shift that we are seeing. Any comment that you want to put on the double-digit top line growth that you delivered for this quarter?
- Pankaj Jain:** What exactly are you asking, Pritesh? I can -- what comment are you looking at?
- Pritesh Chheda:** In sense, the key reasons if you want to highlight for the double-digit top line growth or the key drivers.
- Pankaj Jain:** It's in line with what we predicted to.
- Moderator:** The next question is from the line of Ankit Kedia from PhillipCapital. Please go ahead.
- Ankit Kedia:** Sir, three questions from my side. If I look at your receivable days, there we have increased substantially. Given the mix change towards MBO and franchisee stores, that's bound to happen. But are you also seeing, because of the slowdown in the market, you are facing some challenges in receiving money from your vendors, from your partners?
- Pankaj Jain:** My like-to-like -- okay, my net working capital has, in fact, as committed, has been around 120 days to 130 days, which is still the case.
- Ankit Kedia:** Sure, sir. But my question is purely on receivables, not on inventory.
- Pankaj Jain:** So, receivables for a half year perspective last year, and it's in line with last year's half year perspective.

- Ankit Kedia:** Okay. Sir, in your opening remarks, you put out a comment that your mix in apparel, your ASPs also increased out there. Given that the commodity costs have corrected from the peak since last one year, are you planning to cut prices now? Because you didn't even increase prices substantially the way competition had increased. So, do you think the gap between you and competition now, given that they have cut prices by high single digit or near double-digit, you can be forced to cut prices going forward in the next season?
- Pankaj Jain:** Right now, we are not feeling that pressure of prices yet, okay. So we don't look at cutting our prices down, at least for the next two quarters.
- Ankit Kedia:** Sure. Sure. And, sir, lastly, on your trade margins for franchisee, what are the franchisee trade margins and why is it taking time to close franchisees? Is 2.5-year to three year payback period for franchisee not good enough? Previously, they used to make more money. Or have you changed your trade terms with the franchisees where the trade margin has actually reduced?
- Pankaj Jain:** Okay, I have not changed any trade terms for the franchisees, but definitely, they look also and look at the market opportunities, market sentiment scenario in picture. So that is taking a higher time structure also.
- Ankit Kedia:** Sir, typically, what is the trade margin we give to franchisees on a FOFO model?
- Pankaj Jain:** I don't specifically give that -- okay, disclose that margins to anyone.
- Ankit Kedia:** Okay. And, sir, gross margins from here, do you see they can improve given the way, commodity price have corrected and you are not tinkering with your price points?
- Pankaj Jain:** Looking at -- I'm not looking at any incremental perspective. So even there is a price increase on our side structuring happening, GP is going to remain similar, which is as of today.
- Ankit Kedia:** Sir, but commodity prices have corrected, right? So, ideally, they should expand.
- Pankaj Jain:** Yes, but, okay, I have not increased the prices earlier. So, I was taking that bet perspective on my head. And right now, I am looking at an increasing price bracket also. So when both are happening together structure, I'm not looking at a faster increasing perspective on a quarter-on-quarter basis. It's a slow and steady process. As I get opportunity, I will increase the price.
- Ankit Kedia:** But even if you don't increase prices, last year, you took the hit of commodity inflation, this year getting the benefit of commodity deflation happening. Ideally, your gross margin should expand, right?
- Pankaj Jain:** What you're saying is absolutely right, but, okay, well, last year, I didn't have to give higher discount perspective when customers or when the competitors decreased their prices or there is a change over the price average, then there is a price war and they have to increase your discount margins during the sale period that can get impacted.

- Ankit Kedia:** Okay. So instead of cutting prices, you are alluding to a higher discounting in the market, so the market offsetting price remains pretty much the same?
- Pankaj Jain:** That's the reason, okay, I'm saying that my GP would remain similar.
- Ankit Kedia:** Sure. And, sir, to the earlier participant question on non-retail growth of 5% and retail like-to-like growth of 1%, clearly, quarter two is a lumpy quarter for you compared to quarter three historically. We see a 10% to 15% decline in quarter three historically. And given that your non-retail has grown only 5%, while I understand there are other channels also in that, not only MBO channel, but MBO is the major portion of that channel. Do you see MBOs actually buying less this time around than previously or you have seen a hit in online or some other channel and not in the MBO channel?
- Pankaj Jain:** Okay, they buy close to the market. I wouldn't deny that scenario, but realistic picture we'll get after Q3, how the -- okay, Q3 has been. So overall, if you look -- want to look at the season, okay, we should evaluate after season -- quarter three.
- Ankit Kedia:** So typically, MBO, the supply chain also would mean that they would place orders much earlier, not -- because the sale is already over, Diwali is less than 20 days away, I don't think MBO will place orders today for you, right? They would have placed orders 20 days in advance.
- Pankaj Jain:** They placed the orders, but some supply chain can remain, okay. Earlier, last year, okay, the supply chain was over by the month of September. This year, it is not.
- Ankit Kedia:** Sure, thank you. Thank you, sir.
- Moderator:** Thank you very much. The next question is from the line of Pramod Dangi from Unifi Investment Management. Please go ahead, sir.
- Pramod Dangi:** Yes. Hemant bhai and Pankaj and entire team, many congratulations for a good set of numbers. Pankaj bhai its been two years for our winter wear. So this time, are we looking at expanding our distribution reach irrespective of how the season goes, will there be a good distribution reach after two, three years?
- Pankaj Jain:** Pramod, we have already been able to capture in terms of reach. The question arises how the winter will be and what will be the fresh sell-throughs there.
- Pramod Dangi:** Okay. Okay. And second, Pankaj, we just launched the kid's section. So how we should look at two to three years down the line, the mix between the legacy jeans and the new apparels? Will it change drastically over the next two to three years?
- Pankaj Jain:** Okay. We have tried to keep that uniqueness and we have tried to keep denim as a core category there, okay, but it's still under incubation stage, that -- okay. Our first season's response has been fantastic, okay, let it go to the market and then understand, okay, maybe I'll be able to answer this question in a better way in first quarter of next year.

- Pramod Dangi:** Okay. Got it. Thanks and congratulations again to both of you and entire team. Thanks.
- Moderator:** Thank you very much. The next question is from the line of Yash Bajaj from Lucky Investments. Please go ahead.
- Yash Bajaj:** Thanks for the opportunity and congratulations for a good set of numbers. Sir, I have just one question, a bookkeeping question. In our results, there is this line item of manufacturing and operating expenses. Can you help us understand the nature of that expense and why has that reduced on a year-on-year basis? Even though our top line has increased, that has reduced. So is it a variable expense? Is it a fixed expense? It was INR 15 crores this quarter and previous quarter, last year same quarter was INR20 crores?
- Pankaj Jain:** Major impact is only because the inventory has gone down drastically in this cost bracket.
- Yash Bajaj:** But sir, your sales has increased?
- Pankaj Jain:** Yes.
- Yash Bajaj:** So, it is a variable expense, right? It should grow as much as your revenue, right?
- Pankaj Jain:** There was an inventory carrying, okay, and you will see that, okay, the inventory carrying -- the stock has gone down drastically because of that perspective. Because manufacturing has not been [inaudible]. Manufacturing unit could have gone down, right.
- Yash Bajaj:** Sir, manufacturing?
- Pankaj Jain:** So I feel, okay, it's a mix of three -- two, three things. Manufacturing expenses is not only labor, but it is also some design inventory cost which comes in the product. So maybe one reduction in terms of the design, okay, which is the case of an embroidery or something, that cost would have reduced. Of course, second would be the inventory which has -- that has got reduced, okay. Okay, this would -- this two would be the major aspects for this reduction.
- Yash Bajaj:** Okay. Okay. I think it's reduced by half year also, means September '23, this half year, it is INR 29 crores?
- Pankaj Jain:** Also, I said, it also includes one design element where we used to pay, so manufacturing is also used to do some design element which used to be there, not only job working as a cost, okay, not only labor, that's what I'm saying. It's a labor and a design cost structure and design during this period must have gone down.
- Yash Bajaj:** Okay, sir. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Namit Arora from IndGrowth Capital. Please go ahead.

- Namit Arora:** Thank you for the opportunity. I have just one question. Sir, your offline strategy has obviously been working very well for you all these years. Just one question -- no, your offline store strategy has been working very well for the company all these years. Just one question that do you need to make some investments in digital technology and online effort also?
- Pankaj Jain:** Okay. We have implemented it and we have started with killerjeans.com, okay, on a channel, okay. Online, we are already present on third-party website. So, we are increasing our presence. We are increasing our digital presence. But we are doing it slowly and steadily, not one -- okay, not one altogether.
- Namit Arora:** Got it. Thank you very much and all the best to the entire team.
- Moderator:** Thank you very much. The next question is from the line of Siddharth Purohit from InvesQ Investment Advisor Private Limited. Please go ahead.
- Siddharth Purohit:** Yes, sir. Congrats for the good numbers. A lot of questions has been answered. Just one clarification, sir. With regards to the sales and distribution expenses, you said we might increase on that. So, what is the level of as a percentage of sales we have kept in mind? Because historically, it has been in the 5% to 6% then, are we looking something big?
- Pankaj Jain:** We generally consider it as [inaudible] or any addition to our EBIDTA, we will definitely look at -- we'll look at increasing the EBIDTA margin -- will go in into marketing expenditure.
- Siddharth Purohit:** Okay. So, any major campaign that we are looking this year also particularly or it will be normal business course?
- Pankaj Jain:** So, the deals come on a last time period or a last period. So I can't directly give you a number and what exactly is going to happen. But we say that, okay, you can say that, okay, it's going to remain between 5% to 7%. That's for sure.
- Siddharth Purohit:** Okay. So the idea is that we want to maintain 20% and the additional amount should be invested for brand building and more distribution?
- Pankaj Jain:** Right.
- Siddharth Purohit:** Okay. Got it sir. Thank you.
- Moderator:** Thank you very much. We will take this as the last question. I would now like to hand over the conference to Mr. Hemant Jain for the closing comments. Please go ahead.
- Hemant Jain:** I would like to once again thank all of you for joining us on this call today. We hope we have been able to answer your queries. Please feel free to reach out of our IR team for any clarifications or feedback. Thank you. Thank you to all.
- Moderator:** Thank you very much. On behalf of Kewal Kiran Clothing Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.